

No. 6/35/DPBPR

Jakarta August 16, 2004

CIRCULAR LETTER

To

ALL RURAL BANKS IN INDONESIA

Concerning: Fit and Proper Test for Rural Credit Banks.

With the issuance of Bank Indonesia Regulation Number 6/23/PBI/2004 dated August 9, 2004 concerning Fit and Proper Test for Rural Banks (The State Gazette of the Republic of Indonesia of 2004 Number 81, Supplement to the State Gazette Number 4410), it is deemed necessary to stipulate the provisions on the Fit and Proper Test for Rural Banks in a Circular Letter regarding the following issues:

I. GENERAL PROVISION

1. Rural Banks, which hereinafter shall be known as BPR, is the Rural Banks as referred to in Article 1 number 4 Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, which conduct their business conventionally or based on the Sharia principles.
2. A Fit and Proper Test shall be applied to:
 - a. candidates of Controlling Shareholders (PSP) and candidates of BPR Managers (new entrants);
 - b. Existing PSP, Managers and Executive officer of the BPR.
3. The fit and proper test for candidates of PSP and candidates of BPR's managers shall be conducted through administrative due diligence and interviews in order to evaluate the fulfillment of the stipulated requirements.
4. The fit and proper test for the existing PSP, Managers and Executive officer in BPR shall be conducted at any time if there is an indication of any violation of sound banking practices based on the result of supervision, examination or other sources of information.... ..

information.

5. The Executive Officers of BPR includes, but not limited to, the head of Branch Office, Manager, Head of Division and other officials that fulfill the following criteria:

- a. to have an influence on the policies and operational of the BPR, and/or
- b. report directly to the Directors.

II. THE FIT AND PROPER TEST FOR CANDIDATES OF CONTROLLING SHAREHOLDERS AND MANAGER OF BPR

A. Scope for evaluation

1. The evaluation factors are:

- a. Integrity and financial standing of the candidates PSP;
- b. Integrity, competency and financial reputation of the candidates Managers.

2. The parties subjected to the fit and proper test are:

- a. The individual and/or legal entity that are going to conduct the transferring of BPR's shares through purchasing, receiving bequest or receiving of inheritance which results in the concerned party becoming a PSP;
- b. Non-Controlling Shareholders of BPR that conduct the transferring of BPR's shares through purchasing, receiving bequest or receiving of inheritance which results in the concerned party becoming a PSP;
- c. A Non-PSP whose paid-in capital increases his part of share and causes him to become a PSP;
- d. A Non-PSP that voluntarily applies to become a PSP;
- e. An individual and/or a legal entity that is considered to exercise control in the BPR due to a structural change in the BPR's business group;
- f. An individual who has no experience in banking management but is appointed as a candidate Manager in the BPR;

g. An individual.. ...

- g. An individual who has been or is an existing manager of a bank, that becomes a candidate Manager in the BPR;
- h. A member of the Board of Commissioner of a BPR who is repositioned to be a member of Directors of the same BPR;
- i. A member of the Directors or the Board of Commissioners who is repositioned to a higher level in the same BPR (only administrative due diligence);
- j. A member of the Directors that is repositioned to be a member of the Board of Commissioners in the same BPR (only administrative due diligence).

B. Administrative Requirements for a Candidate PSP

- 1. BPR's application to be granted an approval for the candidate PSP which is proposed to Bank Indonesia must be completed by administrative requirements in comply with the following:
 - a. Bank Indonesia Regulation concerning BPR/BPRS, and
 - b. The provisions on the Requirements and Procedures of BPR's Merger, Consolidation and Acquisition.
- 2. Besides the administrative requirements as referred to in number 1, BPR must also submit the Form as referred to in Appendix 1 and Appendix 2, which must be completed and signed by the candidate PSP/Ultimate shareholders.

C. Administrative Requirements for Candidate Manager

The application from a BPR to gain an approval for a candidate manager shall be proposed to Bank Indonesia by completing the administrative requirements as referred to in Bank Indonesia Regulation concerning BPR/BPRS.

D. Supporting Documents for Administrative Requirement

When necessary, Bank Indonesia may ask the supporting documents of the required administrative files, which cannot be separated from the administrative requirement documents.

For example....

For example:

1. Supporting documents in the form of consortium agreement if the share is jointly purchased with other parties,
2. Documents that indicate the connectivity between PSP and ultimate shareholders.
3. Financial documents that indicate financial capabilities of the prospective PSP/ ultimate shareholders,
4. Financial documents which indicate the cash flow of share purchasing,
5. Other documents that can be used for analyzing and in support of the main documents or statements submitted to Bank Indonesia in order to verify the validity and appropriateness.

E. Procedures for Evaluation

1. The fit and proper test for the candidate PSP and manager of BPR is executed through an administrative due diligence and interview.
2. The administrative inspection consists of:
 - a. For Candidate PSP

An inspection on the completion and accuracy of the administrative documents, track-record inspection, financial properness inspection, and an inspection on the business group structure submitted to Bank Indonesia.
 - b. For Candidate of Manager

An inspection on the completion and accuracy of the administrative documents, track record inspection and financial reputation inspection.
3. The application is considered completely accepted when the administrative documents and their supporting documents have been received completely by Bank Indonesia.
4. The interview is executed to confirm the information that has been gained and/or to gain more information from the proposed candidate PSP and candidate Manager in order to ensure and complete the submitted information by BPR or which have been owned by Bank Indonesia. The interview shall only be done to the candidate PSP and candidate manager who have fulfilled the administrative requirements.

5. There

5. There shall be an administrative due diligence on the extended period of managerial position. The evaluation shall be done by conducting an evaluation on the track record, and an inspection to ensure that the concerning individual is not listed in the list of bad debts. The definition of extended period of managerial position is every reassignment on the same level of position, either before or after the period of original position has ended. The extended period of managerial position shall be reported to Bank Indonesia to the mailing address as referred to in letter F.

F. The Mailing Address for Submitting the Applicationn and Administrative Documents

The aforementioned application completed with the documents as referred to in letter B, C, and D shall be submitted by the BPR to:

1. The Directorate of Rural Bank Supervision of Bank Indonesia, Jl. M.H. Thamrin No.2 Jakarta 10110, for BPR head offices in DKI Jakarta, Municipal/Regency of Bekasi, Bogor, Karawang, Depok and Province of Banten;
2. The Directorate of Sharia Banking of Bank Indonesia, Jl. M.H. Thamrin No. 2 Jakarta 10110, for BPRS whose head office located in DKI Jakarta, Municipal/Regency of Bekasi, Bogor, Karawang, Depok and Province of Banten;
3. The regional Bank Indonesia offices for BPR/BPRS whose head office is outside the regions as mentioned in number 1, by referring to the distribution of Bank Indonesia area of work in Appendix 5.

III. FIT AND PROPER TEST FOR CONTROLLING SHAREHOLDERS, MANAGERS AND EXECUTIVE OFFICER OF BPR

A. Procedures for Conducting the Evaluation

1. Fit and proper test for PSP, Manager and Executive shall be conducted at any time if there is an indication of any violation of sound banking practices based on the result of supervision, examination or other sources of information.

2. The fit and

2. The fit and proper test shall be conducted through a special examination and at the same time as the other examination.

B. Procedures for Assessing the Evaluation

The assessment for the result of the fit and proper test shall be conducted by scoring each of the following factors:

1. The assessment for each evaluated factor for PSP encompasses:
 - a. Factor of Integrity
 - 1) manipulation or banking practices in deviation from banking regulation shall be given a factor score of 20 (twenty);
 - 2) refusal to provide commitment or failure to honor commitments made by Bank Indonesia shall be given a score of 20 (twenty);
 - 3) acts that result in undue profit for the owner(s), Managers, employees and/or other party that incur losses or reduce the profit of the Bank shall be given a factor score of 15 (fifteen);
 - 4) A violation of prudential banking principles shall be given a factor score of 10 (ten).
 - b. Factors of Financial Standing
 - 1) on the list of bad debts is given the factor points of 5 (five);
 - 2) declared bankrupt or at fault in the bankruptcy of a company is given a factor score of 20 (twenty);
 - 3) Incompetence to meet commitments in resolving capital and liquidity difficulties faced by the BPR shall be given the maximum factor score of 10 (ten);
2. For the Manager and/or Executive Officers, the assessment of each of the following factors comprises:
 - a. Factor of Integrity
 - 1) manipulation or banking practices in deviation from banking regulation shall be given a factor score of 20 (twenty);
 - 2) refusal to provide commitment or failure to honor commitments made by Bank Indonesia shall be given a score of 20 (twenty);

3) Acts that

- 3) acts that result in undue profit for the owner(s), Managers, employees and/or other party that incur losses or reduce the profit of the Bank shall be given a factor score of 15 (fifteen);
- 4) A violation of prudential banking principles shall be given a factor score of 10 (ten);
- 5) A dependant act of the Manager and/or Executive Officer is given a factor score of 5 (five).

b. Factors of Competency

- 1) sufficient knowledge on banking fields that is relevant to the position shall be given a maximum factor score of 4 (four);
- 2) the expertise and experience in banking field and/or financial field shall be given a maximum factor score of 4 (four);
- 3) the ability to perform strategic management in order to develop a sound BPR shall be given a maximum factor of 4 (four).

The assessment on the factors of competency is based on the following scoring standard:

- a) Good is given a factor score of 0 (zero)
- b) Less than good is given a factor score of 2 (two)
- c) Bad is given a factor score of 4 (four)

c. Factors of Financial Reputation

- 1) on the list of bad debts or becoming a manager of the a legal entity listed on the list of bad debts shall be given a factor score of 5 (five);
- 2) Declared bankrupt or found at fault in the bankruptcy of a company shall be given a factor score of 20 (twenty).

3. In the assessment of integrity factors as referred to in number 1 letter a and number 2 letter a, the scores are decided as follows:

- a. the executor, decision maker, initiator, or the person in charged shall be given a score as 100% (a hundred percent);
- b. the implementer, signing parties, or the approving parties shall be given a score of 60% (sixty percent);

c. The acknowledged.....

- c. The acknowledged party shall be given a factor point of 25% (twenty five percent).

The final score for integrity factors shall be conducted after calculating the factor scores as referred to in number 1 letter a or number 2 letter a with the aforementioned proportion.

- 4. The final score of the fit and proper test is done by adding the scores of:
 - a. factors of integrity and financial standing, for PSP;
 - b. factors of integrity, competency and financial reputation, for the Manager and Executive Officers.

C. Procedures in Determining the Final Score Ratings

Based on the assessment of the final result as referred to in letter B number 4, PSP, Manager and/or Executive Officer shall be granted a rate of:

- a. Passing Grade, if the final result is 0 (zero);
- b. Qualified Passing Grade, if the final result is more than 0 (zero) but less than 20 (twenty);
- c. Disqualified if the final result is 20 (twenty) or more.

D. The Definitive Criteria for Factors of Material in Determining the Period of Time for Sanction

- 1. One of the factors to determine the length of time for barring sanction for the disqualified parties shall be based on the material factors of the impact of loss incurred on BPR's capital as a result of the deeds and/or action of the concerning party.
 - a. The party's deed and/or action can be categorized as incurring losses that does not result in significant material losses on BPR's capital if the losses cause:
 - 1) a decrease of Capital Adequacy Ration (CAR) with the amount less than 0,5% (half percentage); and
 - 2) the rate of CAR is still according to applicable provisions.

The period

The period of sanction against the deeds and/or actions mentioned above shall be applied for 2 (two) years.

- b. The acts and/or deeds of the concerning party can be categorized as incurring losses that materially affecting the capital of BPR if the incurred losses causes:

- 1) the decreasing rate of CAR for 0,5% (a half) to less than 2% (two);
and
- 2) the rate of CAR is still according to the applicable provision.

The period of sanction against the aforementioned deeds and/or acts is applied for 3 (three) years.

- c. The deeds and/or acts of the concerning party can be categorized as incurring losses with material effect on the capital of the BPR if they cause:

- 1) a decreasing rate of CAR amounting 2% (two percent) or more; or
- 2) the rate of CAR is becoming less than the applicable provision.

The period of sanction against the aforementioned deeds and/or acts is applied for 5 (five) years.

- 2. The basis for calculating the rate of incurred material losses is the existing capital of BPR during which the deeds and/or action of the concerning party are taken place and by measuring the portion taken by the executor among the examined parties.
- 3. The procedures for calculating the material rate.
 - a. The decision on the loss for each occurrence of deed and/or action shall be determined on the charges on each involving party based on the portion taken by the executor as referred to in letter B number 3.
 - b. The incurred loss charges of each party in letter a will be calculated with the existing capital position on the occurrence of the deeds and/or actions.
 - c. In the cases of the measurement of the deeds and/or action is done with the capital position if a different month, the calculation shall be done by deciding a result which gives the longest period of sanction among

the following ...

the following methods:

- 1) the loss effect on BPR's capital resulted from the deeds and/or acts compared to the capital position during the occurrence of the deeds and/or acts;
- 2) the loss effect on BPR's capital caused by several deeds and/or actions that end on a specific date which are calculated cumulatively compared to the capital position during the final period of the referred deeds and/or actions;
- 3) the loss effect on BPR's capital caused by all the deeds and/or actions which are calculated cumulatively compared to the capital position during the final period of the referred deeds and/or actions.

E. The Mailing Address for Submission of Report, Written Statement and Application for a Re-examination

The report, written statement and/or application for a re-examination shall be proposed by the BPR and/or the examined parties to Bank Indonesia with the mailing address as referred to in number II letter F.

IV. REPORT ON BUSINESS GROUP STRUCTURE

The report on the structure of business structure shall include all parties related to the BPR from the management level to the controlling shareholders. In the case of the management level is resulted from ownership aspect, the share/portion of ownership and the organizational structure of each concerning party must be stated. An example of a report on the business group structure is as referred to in Appendix 3 and Appendix 4. The report on business group structure shall be submitted to Bank Indonesia with the mailing address as referred to in number II letter F.

V. THE DELIVERANCE OF FIT AND PROPER TEST RESULT

The result of a fit and proper test in the form of an approval or rejection on the application for the candidate PSP shall be delivered in written:

a. to the

- a. to the candidate owner as the applicant in the case of a request for approval of BPR founding principles;
- b. to the BPR in the case of a removal of a PSP or Manager.

VI. CLOSING

The provisions in this Circular Letter shall be put into force from August 16, 2004.

For the public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA,

Signed

SRI MULYATI TRI SUBARI

DEPUTY DIRECTOR OF RURAL BANK SUPERVISION